

SENATE BILL REPORT

SB 5307

As of January 29, 2010

Title: An act relating to plan membership default provisions in the public employees' retirement system.

Brief Description: Addressing plan membership default provisions in the public employees' retirement system.

Sponsors: Senators Hobbs, Fraser, Holmquist and Schoesler; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/28/10.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The Public Employees' Retirement System Plans 2 and 3 (PERS 2/3) provide benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another of the state retirement systems. Covered employees include all state agencies and subdivisions, and most local government employees not employed by the cities of Seattle, Tacoma, and Spokane.

PERS Plan 2 was created in 1977 and covered all new members of PERS. PERS 2 is a defined benefit plan that provides a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

PERS Plan 3 was first opened to membership in 2002, and since its creation new members of PERS have been given a period of 90 days to choose to become a member of Plan 2 or Plan 3. The choice is irrevocable, and once a member chooses a plan it becomes the only PERS plan that the member may participate in. If a member does not choose membership in either Plan 2 or Plan 3, the member becomes a member of Plan 3 by default.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

PERS Plan 3 is a hybrid defined benefit and defined contribution retirement plan. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 percent and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

Summary of Bill: The default plan for new members of PERS 2/3 that do not choose a plan within 90 days of becoming employed in an eligible position is changed from Plan 3 to Plan 2.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The Plans 3 were designed to provide additional flexibility to employees that wanted that freedom. Those employees who fail to select a plan are those who are least likely to be actively involved in their retirement planning. They should not be placed in Plan 3, which requires that members take more responsibility for their retirement benefits. This bill will save the state and local governments a significant amount of money over the next 25 years.

Persons Testifying: PRO: Don Carlson, Select Committee on Pension Policy; Leslie Main, Washington State School Retirees' Association; Pat Thompson, County and City Employees; Matt Zuvich, Washington Federation of State Employees.